

**Management Advisory Report: The Criminal
Investigation Function Needs to Monitor the
Lead Development Centers to Minimize the
Risks Associated with the Accelerated Rollout**

February 2002

Reference Number: 2002-10-052

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

February 15, 2002

MEMORANDUM FOR CHIEF, CRIMINAL INVESTIGATION

Pamela J. Gardiner

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout (Audit # 200110028)

This report presents the results of our review of the Criminal Investigation (CI) function's nationwide implementation of the Lead Development Centers (LDC). The overall objective of this review was to identify the risks associated with the accelerated nationwide rollout.

In summary, we found that the CI function planned to complete a formal pilot phase before nationwide implementation of the LDC initiative. However, the CI executives decided to accelerate the rollout to improve their ability to properly refocus resources to investigate legal source tax crimes¹ and because funding became available. The CI function may be at risk of not meeting its planned objective for this new initiative since the necessary research tools were not in place and staffing levels were not validated prior to nationwide implementation.

Management's Response: The CI function agreed to the recommendations presented in this report and plans to obtain the necessary research tools, as well as conduct a study of the operational LDCs to determine the proper staffing levels and resource allocation.

Management's complete response to the draft report is included as Appendix IV.

¹ Legal source investigations involve tax evasion in a broad range of legal industries and occupations.

Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

Table of Contents

Background	Page 1
Criminal Investigation's Efforts to Implement the Lead Development Centers Need to Be Monitored	Page 2
<u>Recommendations 1 through 3:</u>	Page 6
<u>Recommendations 4 and 5:</u>	Page 7
Appendix I – Detailed Objective, Scope, and Methodology	Page 8
Appendix II – Major Contributors to This Report.....	Page 9
Appendix III – Report Distribution List	Page 10
Appendix IV – Management's Response to the Draft Report	Page 11

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

Background

The Lead Development Center (LDC) is an innovative concept initiated by the Criminal Investigation (CI) organization to improve its ability to refocus resources into legal source¹ tax-related areas. The LDC represents a significant investment in the reengineering of the current case development process to ensure that leads referred for criminal investigation meet the criteria and goals established in the CI Strategy and Program Plan (SPP). The CI function's commitment is consistent with the Webster Report² recommendation to shift resources from narcotics and other illegal source income to tax crimes related to legitimate business activity.

The LDC acts as a quality control for information items provided by special agents, Operating Divisions (ODs), Fraud Detection Centers (FDCs),³ and all other sources. The main role of the LDC is to have investigative analysts research sophisticated databases to timely develop high quality leads and assign Primary Investigations. The LDC also assists the field offices in meeting the operational criteria and goals of the Annual Compliance Guidance and advises Headquarters Planning and Strategy of trends and deviations in program and geographic areas. In addition, the LDC serves as a conduit for referring all leads with potential civil violations to the ODs.

As part of restructuring the IRS, the Commissioner approved the establishment of the LDC concept as part of the CI function's redesigned infrastructure. The modernization design team recommended that CI roll out the initial LDC as a 1-year pilot in the Baltimore Field Office beginning October 2000. The purpose of the pilot was to determine the optimal organizational structure and site locations, evaluate automated data processing capabilities and needs, refine procedures and protocols, and

¹ Legal source investigations involve tax evasion in a broad range of legal industries and occupations.

² Review of the Internal Revenue Service's (IRS) Criminal Investigation Division, also known as the Webster Report.

³ FDCs are located at each of the 10 IRS campuses and contain the Questionable Refund Detection Teams, which review questionable returns identified by either manual or computerized screening.

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

validate workload requirements. However, in December 2000, the Chief, CI, decided to accelerate the rollout of the LDCs. The LDC Executive Steering Committee authorized Fiscal Year (FY) 2001 funding to be used and established key priorities for the nationwide implementation of the LDC initiative.

The LDC Task Force, responsible for overseeing the pilot and subsequent implementation of the LDCs, originally proposed one LDC be established in each of the six CI geographic areas by October 2001. The CI function now plans to have all 12 LDCs operational by January 2002.

A prior Treasury Inspector General for Tax Administration review⁴ identified the LDC as a potential area of concern because of its significant impact on the CI function's primary mission. As a result, we added this assignment to our FY 2001 audit cycle. To accomplish our objective, we reviewed available documentation and interviewed the Director of Field Operations for the Mid-Atlantic Area; the Baltimore LDC managerial staff; and the Chief of the Business Systems Planning Section, Office of Strategy. Audit work was performed from April to August 2001 and was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Criminal Investigation's Efforts to Implement the Lead Development Centers Need to Be Monitored

The CI function planned to complete a formal pilot phase before nationwide implementation of the LDC initiative. However, the CI executives decided to accelerate the nationwide rollout to improve their ability to properly refocus resources to investigate legal source tax crimes and because funding became available. The CI function may be at risk of not meeting its planned objective for this new initiative since the necessary research tools were not in place and staffing levels were not validated prior to the nationwide implementation of the LDCs.

⁴ *Review of the Effectiveness of Criminal Investigation's Strategic Planning Process* (Reference Number 2001-10-098, dated June 2001).

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

The LDC research tools

Currently, the LDCs do not have sufficient research tools to accomplish the overall objective of providing the highest quality leads for legal source tax investigations. The LDC concept uses integrated databases to ensure promising fraud referrals and information items are researched in the most efficient manner. Consequently, the success of the LDCs is dependent upon fast, reliable access to quality information systems and taxpayer records. If the LDCs are to function as envisioned, the CI function will need to acquire the law enforcement-enhanced Choice Point commercial database and will need access through the CI networked computers to the Integrated Data Retrieval System (IDRS)⁵ and the Electronic Fraud Detection System (EFDS).⁶ In addition, the CI function requires faster internet connectivity to enhance researching capabilities.

The law enforcement-enhanced Choice Point commercial database searches all three major credit bureaus and links with other sources for additional data to obtain in-depth financial investigative information. The CI function's Business Systems Planning section provided \$400,000 to contract with Choice Point for approximately 4 months starting in September 2001. The Director, Business Systems Planning section stated that the CI function did not have sufficient funds to extend the Choice Point contract for the full year. It is essential that the Choice Point's law enforcement component be available for the LDCs to maximize their research capabilities. In addition, the CI function should ensure future funding is available to extend the contract to timely and adequately service each of the LDCs.

Current security policy prohibits IDRS access through computers with internet connectivity. The IDRS is the primary source of taxpayer information for the investigative analysts and is used to develop every lead received by the

⁵ The IRS computer system capable of retrieving or updating stored information; works in conjunction with a taxpayer's account records.

⁶ EFDS is a computer system that automates the computer identification output for potentially fraudulent Electronic Filed returns.

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

LDC. Without direct access to the IDRS from CI networked computers, the investigative analysts must share the limited number of dedicated terminals in the various locations. This practice is time-consuming and could jeopardize time frames established to process fraud referrals from the ODs and to provide service to the Special Agent-in-Charge offices. The Business Systems Planning section determined that there is a software package that disconnects the internet and electronic mail when the IDRS is accessed. However, we were advised that competing priorities have delayed the CI function from pursuing the issue.

The CI management is aware that effective case management, as well as an invigorated fraud referral program, are crucial to accomplishing its tax enforcement mission. The EFDS is a vital tool for lead identification and case development. The CI personnel in the FDCs exclusively use the EFDS database to detect potentially fraudulent electronically filed tax returns. The Modernization Information Technology Services (MITS), however, currently maintains and administers the EFDS. The Director, Business Systems planning section advised us that the CI and MITS functions tentatively resolved conflicting administration and security concerns. The MITS function agreed to allow direct access to the EFDS from CI networked computers. The CI and MITS functions drafted a Memorandum of Understanding (MOU) to transfer total information technology responsibility to the CI function for the EFDS. However, the CI and MITS functions still need to finalize the MOU and develop a plan to transfer the necessary terminals.

The LDCs also need internet access to research and develop quality leads. According to the CI officials, it is using the Treasury firewall, which is slow because of the tremendous amount of traffic on the system. Because the LDCs require extensive internet research, it would be advantageous for the CI function to make appropriate arrangements for its own firewall, thereby increasing the efficiency of its internet searches.

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

Although the CI function is currently working to address these electronic research problems, the final resolution of these issues is essential to ensure that the LDCs have the capability to refer the highest quality leads, in the most efficient manner, to the field offices.

Staffing allocation

The CI executives decided not to conduct an independent workload analysis to validate the number and allocation of the investigative analysts among the 12 LDC sites. Instead, they authorized hiring based upon the modernization design team's staffing level methodology. Without an independent workload analysis validating the modernization team's projected workload, the CI function is at risk of not effectively using its limited resources to successfully shift toward legal source tax investigations.

One of the most important objectives of the LDC pilot was to validate the staffing levels of the investigative analysts that were developed during the modernization effort. Since historical data were unavailable, the modernization design team interviewed a sample of field and administrative personnel to obtain estimates of the number of leads received and the time spent developing the leads. We determined that the CI function relied on these estimates and available 1997 staffing level data to estimate the future number of potential leads.

Based on this information, the CI executives approved accelerated hiring for all of the positions at each of the 12 LDC sites. These 12 sites require an additional 132 positions, which include 12 Special Agent managers, 12 supervisory analysts, 12 computer support assistants, and 96 investigative analysts.

We believe current workload requirements may differ in the new infrastructure and may not support the authorized staffing composition for the LDCs that were developed prior to the reorganization. Although the formal pilot objective was not completed, the LDC Task Force did track, on a monthly basis, the number and source of the leads for each of the field offices in the Baltimore LDC service area. This

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

information could be used to assist in validating workload requirements.

Recommendations

To ensure that the LDC accomplishes its objective to refer the highest quality leads for criminal investigation, we recommend:

1. The CI function allocate sufficient funds in its FY 2002 budget to provide for the law enforcement enhanced Choice Point commercial software for the LDCs to conduct essential electronic searches.

Management's Response: The CI function covered the \$1.3 million cost of the Choice Point software until November 2002. The CI function will evaluate the use and value of Choice Point and decide whether to continue using this research tool beyond November 2002.

2. The CI function timely complete the process to procure and install the software that allows for direct access to the IDRS from CI networked computers.

Management's Response: The CI function agreed to test software (Info Connect) on computer images. After the CI function completes testing this software, the MITS function will conduct a mandatory security review before permitting full implementation.

3. The CI executive management ensure the timely completion of the MOU with the MITS function to improve the ability to increase the inventory of tax-related cases.

Management's Response: The CI and MITS functions are continuing to research a solution to this business problem. In the interim, the CI and MITS functions are drafting an MOU to allow the CI function to add the EFDS to the CI network. If approved, the CI function will provide the necessary support of the EFDS workstations on the CI network.

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

4. The CI function pursue obtaining a firewall to ensure faster internet access is obtained, which will allow for the research needed to develop timely and quality leads.

Management's Response: The cost for the CI function to obtain a separate firewall would be prohibitive. CI management agreed, however, to work with the MITS function to resolve the delays in obtaining information from internet sources. The CI function will explore alternative solutions, including implementing a digital service line and using off-network computers with an internet service provider. In addition, the CI National Office LDC analyst will ensure all the LDCs are aware of any new solutions.

Office of Audit Comment: As discussed in response to earlier recommendations, the CI function should continue to work with the MITS function to ensure that adequate security measures are implemented for any solutions to the access issues.

5. The LDC Task Force conduct a workload analysis to ensure LDC staffing levels support resource allocations and workload models.

Management's Response: The CI Executives agreed to conduct a study of the operational LDCs to determine the proper staffing levels and resource allocation.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to identify the risks associated with the accelerated nationwide implementation of the Lead Development Center (LDC) initiative. Specifically, our objective was to evaluate the feasibility of accelerating the nationwide implementation of the LDCs. In particular, we evaluated the progress and status of the LDC pilot. We also determined whether the planned LDC rollout reflected current workload projections. Our scope of review did not include evaluating the effectiveness of the LDCs. To accomplish these sub-objectives, we conducted the following audit tests:

- I. To evaluate the progress and status of the LDC pilot, we:
 - A. Reviewed the Criminal Investigation (CI) Strategy and Program Plan and all documentation related to the LDC concept and design, pilot, and implementation plans.
 - B. Interviewed CI personnel who were responsible for the accelerated nationwide rollout of the LDCs and reviewed available documentation from the LDC Task Force and Executive Steering Committee.
 - C. Evaluated the status of major tasks and related issues included in the Baltimore Pilot project plan.
 - D. Identified incomplete tasks, unresolved problems, and ineffective processes that may have adversely affected the overall success of the accelerated nationwide rollout of the LDCs.
- II. To determine whether the planned LDC rollout reflected current workload projections, we:
 - A. Evaluated the methodology used to validate the location and number of the additional LDCs.
 - B. Evaluated the methodology used to validate the size and staffing composition for the additional LDCs.

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

Appendix II

Major Contributors to This Report

Dan Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organization Programs)

Joseph W. Edwards, Director

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Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

Appendix III

Report Distribution List

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Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

Appendix IV

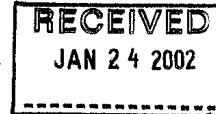
Management's Response to the Draft Report



Criminal Investigation

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JAN 24 2002



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Mark E. Matthews
Mark E. Matthews
Chief, Criminal Investigation CI

SUBJECT:

Response to Draft Management Advisory Report – The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout.
(Audit # 200110028 and ECMS IR No. 0201-566K35YC)

We reviewed the above draft Management Advisory Report, which summarizes the issues associated with the accelerated nationwide implementation of the Lead Development Centers (LDCs). The LDCs represent a significant investment in reengineering the current case development process. Our objective is to ensure that leads referred for criminal investigation meet the criteria and goals established in the Criminal Investigation (CI) Strategy and Program Plan (SPP).

The audit focuses on CI's planned nationwide rollout of the LDCs prior to the completion of the formal pilot phase of the LDC initiative. We accelerated the nationwide rollout to expedite the organization's ability to properly refocus its resources on legal source tax crimes and because funding was available. In this response, we address the audit questions concerning CI's ability to meet its planned objective for this new initiative before having the necessary research tools in place and validating staffing levels.

Accelerated LDC Nationwide Rollout

We based the accelerated nationwide LDC rollout, prior to the completion of the Baltimore LDC "pilot" on several studies and analyses. We used investigations initiated by special agents (SAs) in each of the six CI areas over the past several years to create the LDC staffing model. The Webster study and three design teams reviewed the data and recommended proceeding in this direction. The pilot project team quickly concluded that the LDC concept would revolutionize CI's investigative processes and enhance the field's ability to determine which tax investigations had the most potential. Use of this model will maximize SA resources. The team also determined that the resources allocated to the areas initially would be the minimum staffing required to accomplish the mission of the LDCs. Once the LDCs become operational, CI will conduct a study to determine the proper staffing levels and allocation of resources. Electronic research capability and the efficiency of the small

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

2

operating unit provide a flexible operating model that allows us to shift work within the area and throughout the country during peak periods.

Initial feedback from the Baltimore "pilot" that has been operational for over a year and the other LDCs that have been operational for varying lengths of time, shows that this concept is exceeding our anticipated objective. The LDC concept allows the Director of Field Operations (DFO) to shift the resources within the area, as needed. For example, the DFO Mid-Atlantic recently directed the LDC in Covington to change its work priorities from one field office to another to correct workload imbalances in the field offices.

Our current experience shows that the need for investigative analysts in CI is significantly greater than the staffing levels authorized for the LDCs. Proper use of this resource will greatly reduce future labor costs by shifting more work from the SAs to the analysts. Although we anticipate that experience will make our analysts more efficient, it may not reduce the time we apply to a lead. As we develop additional electronic lead sources, we will spend more time on lead research. Furthermore, enhancement and expansion of the World Wide Web will help us provide an improved comprehensive research package.

The aftermath of the September 11, 2001 tragedy is an example of the success and flexibility of the LDC structure. During this time, the LDCs could assist the CI's SAs, and personnel from other agencies associated with the Joint Terrorism Task Force (JTTF). The LDCs investigative analysts provided comprehensive financial investigative packages that assisted the JTTF in locating many individuals and their assets. The Baltimore LDC provided leadership in electronically transmitting research requests to the other operational LDCs and in expediting the financial research. The LDC model proved that small operational units are more efficient and effective. Our experience demonstrated that the benefits of an accelerated rollout far exceeded the limited potential risks of staffing misplacement in fulfilling the LDCs purpose and accomplishing CI's mission.

ChoicePoint

Since the audit, CI secured the use of the law enforcement component of ChoicePoint until November of 2002. We will evaluate the effectiveness of this research tool and decide whether to continue using it.

The IRS also has a contract with Lexis/Nexis that offers many, but not all of the same features as ChoicePoint. ChoicePoint will serve as an enhancement to Lexis/Nexis and will provide a wide range of research capabilities.

Integrated Data Retrieval System (IDRS)

Criminal Investigation's National Operations Center (NOC) and Modernization Information Technology Services (MITS) are studying the security issue of using the Integrated Data Retrieval System (IDRS). We agree that it would be best for the investigative analysts to have IDRS on their desktop computers. However, the IRS must consider the potential risk of jeopardizing IDRS security. Because CI's desktop

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

3

computers have access to the Internet, we must safeguard the IDRS and its data from potential hackers. The NOC and MITS are still evaluating this issue. Hopefully, we will find a workable solution.

Electronic Fraud Detection System (EFDS)

Criminal Investigation started initial discussion with MITS concerning potential solutions to the business problem of dual workstations. Currently, access to the Electronic Fraud Detection System (EFDS) and the CI network requires separate workstations. In the interim, CI and MITS are drafting a Memorandum of Understanding (MOU) to allow CI to add EFDS to the CI network. The MOU identifies the issue and the possible corrective action of moving CI employees to the CI network. Hopefully, we will identify a solution to consolidate workstations.

CI Internet Access

The LDCs access to the Internet presents two separate but related issues. Investigative analysts perform all of the Internet research through the Treasury Firewall. Criminal Investigation currently uses the MITS infrastructure. This is a slow process because the volume of traffic through the firewall is extremely heavy.

The draft report mentions that the CI function was attempting to secure a separate firewall. Although this would greatly reduce the traffic and therefore increase the speed, it would be very costly for CI to develop. Criminal Investigation is exploring using the digital service line (DSL). As Federal agencies, state and local government agencies, and industry open access to their data through the Internet, the IRS must have the infrastructure to obtain this data efficiently.

The second issue is a "law enforcement capability issue." The LDCs require an off network computer to access the Internet. This computer would use an Internet Service Provider (ISP) to access the Internet and conduct research without leaving the "dot gov" trail. If we cannot solve the "firewall information delay issue" and we find that the delays are extreme, CI may have to use these off network computers to conduct extensive research on the Internet. Purchasing high speed Internet access from an ISP would speed the research process. Criminal Investigation will continue to work with MITS to resolve the delays in obtaining information from Internet sources.

Staffing Allocations

On page 5, paragraph 5, the draft report states "We believe that current workload requirements may differ in the new infrastructure and *may not support the authorized staffing* composition for the LDCs that were developed prior to the reorganization." We addressed this issue previously in the "LDC Accelerated Nationwide Rollout" section on pages 1 and 2 of this response.

Our comments on the specific recommendations in this report are as follows:

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

4

IDENTITY OF RECOMMENDATION #1

The CI function should allocate sufficient funds in its FY 2002 budget to provide for the law enforcement enhanced ChoicePoint commercial software for the LDCs to conduct essential electronic searches.

ASSESSMENT OF CAUSE (S)

The IRS secured a contract for non-CI personnel to access ChoicePoint but did not include the law enforcement database component in its contract. Criminal Investigation wanted to amend the contract with ChoicePoint to include both CI and the law enforcement component of ChoicePoint. However, IRS lacked sufficient funds to meet its responsibility for these additional costs.

CORRECTIVE ACTION (S)

Criminal Investigation covered the \$1.3 million cost until November of 2002.

IMPLEMENTATION DATE

September 1, 2001

RESPONSIBLE OFFICIAL (S)

Chief, Criminal Investigation
Director, Strategy

CORRECTIVE ACTION (S) MONITORING PLAN

Criminal Investigation will evaluate the use and value of ChoicePoint and decide whether to continue using this research tool beyond November 2002.

IDENTITY OF RECOMMENDATION #2

The CI function should timely complete the process to procure, test, and install the software that allows for direct access to the IDRS from CI networked computers.

ASSESSMENT OF CAUSE (S)

Modernization Information Technology Services has security concerns about having IDRS installed on workstations that also have Internet access.

CORRECTIVE ACTION (S)

Criminal Investigation is testing software (Info Connect) on computer images. After CI completes testing this software, MITS will conduct a mandatory security review before permitting full implementation.

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

5

IMPLEMENTATION DATE

October 1, 2002

RESPONSIBLE OFFICIAL (S)

Chief, Criminal Investigation
Director, Strategy
Modernization Information Technology Services

CORRECTIVE ACTION (S) MONITORING PLAN

Criminal Investigation will complete testing the Info Connect software. Then CI will request the MITS security review.

IDENTITY OF RECOMMENDATION #3

The CI management should ensure the timely completion of the MOU with MITS to improve the ability to increase the inventory of tax-related cases.

ASSESSMENT OF CAUSE (S)

While CI is the only function that uses the EFDS, Wage & Investment (W & I) is responsible for performing system security and administration and updating the system as they receive new tax data. In addition, CI handles sensitive grand jury and other classified information that requires a closed network. Consequently, CI requires a separate network "domain" from the rest of IRS.

CORRECTIVE ACTION (S)

Criminal Investigation and MITS are continuing to research a solution to this business problem. In the interim, CI and MITS are drafting a MOU to allow CI to add EFDS to the CI network. If approved, CI will provide the necessary support of the EFDS workstations on the CI network.

IMPLEMENTATION DATE

January 1, 2003 (pending negotiation and agreement with MITS)

RESPONSIBLE OFFICIAL (S)

Chief, Criminal Investigation
Director, Strategy
Modernization Information Technology Services

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

6

CORRECTIVE ACTION (S) MONITORING PLAN

Criminal Investigation will hold quarterly discussions with MITS until we identify a solution.

IDENTITY OF RECOMMENDATION #4

The CI function should install a firewall to ensure that the high speed Internet access needed to research and develop timely and quality leads is obtained.

ASSESSMENT OF CAUSE (S)

Criminal Investigation uses the same main Treasury firewall as all the other Treasury agencies. The LDC Investigative analysts conduct extensive electronic research on commercial databases and the Internet.

CORRECTIVE ACTION (S)

The cost of CI obtaining a firewall would be prohibitive. Criminal Investigation is exploring implementing a DSL as a solution.

IMPLEMENTATION DATE

October 1, 2002

RESPONSIBLE OFFICIAL (S)

Chief, Criminal Investigation
Director, Strategy
MITS

CORRECTIVE ACTION (S) MONITORING PLAN

Criminal Investigation will explore alternative solutions, including implementing a DSL. The CI National Office LDC analyst will ensure all the LDCs are aware of any new solutions.

IDENTITY OF RECOMMENDATION #5

The LDC Task Force should conduct a workload analysis to ensure LDC staffing levels support resource allocations and workload models.

ASSESSMENT OF CAUSE (S)

Determination of the staffing levels and resource allocations was one of the objectives of the LDC "pilot". We did not verify these levels and allocations because of the accelerated rollout.

Management Advisory Report: The Criminal Investigation Function Needs to Monitor the Lead Development Centers to Minimize the Risks Associated with the Accelerated Rollout

7

CORRECTIVE ACTION (S)

Criminal Investigation will conduct a study of the operational LDCs to determine the proper staffing levels and resource allocation.

IMPLEMENTATION DATE

October 1, 2002

RESPONSIBLE OFFICIAL (S)

Chief, Criminal Investigation
DFOs

CORRECTIVE ACTION (S) MONITORING PLAN

The CI National Office LDC analyst will conduct a task force and review the staffing levels and resource allocations.

If you have any questions or need additional information, please contact me at (202) 622-3200 or Tyrone G. Barney, Director of Strategy at (202) 622-5876.